THE PEW CHARITABLE TRUSTS

Retirement Security Across Generations

Are Americans Prepared for Their Golden Years?

Overview

MAY 2013

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ACKNOWLEDGMENTS

The analysis for this report was conducted by John Gist, research professor of public policy at George Washington University. Dr. Gist would like to thank Megan Hatch for her invaluable research assistance with this project.

The economic mobility project thanks Pew staff members Samantha Chao, Andrea Hewitt, H.J. Derr, Jennifer V. Doctors, Laura Fahey, Samantha Lasky, and Liz Voyles for providing valuable feedback on the report, and Fred Schecker for Web support. Many thanks to our other former and current colleagues who made this work possible.

The report benefited from the insights and expertise of external reviewers David Love, associate professor of economics at Williams College, and Kevin Perese, a principal analyst at the Congressional Budget Office. These experts have found the report's approach and methodology to be sound; neither they nor their organizations necessarily endorse its conclusions.

This report was supported in part by the Charles Stewart Mott Foundation.

For additional information, please visit economicmobility.org.

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Overview

When the Great Recession hit in 2007, the oldest baby boomers were nearly eligible for Social Security. Many of them recalled stories of the Great Depression and feared that their own nest eggs would vanish with too little time to make up the losses. Having lived most of their lives in an expanding economy, these Americans faced the real possibility of downward mobility just as they were entering their golden years.

The downturn also heightened concerns about retirement planning—or lack of planning—by younger generations. Many younger Americans were already behind in saving for retirement, and suddenly millions of them were out of work or owned homes worth far less than they had been just a few years earlier.

This report explores how the Great Recession affected the wealth and retirement security of baby boomers relative to younger and older cohorts of Americans. The analysis compares their wealth to that of other cohorts at similar ages to understand how boomers are faring in relative terms. It also tracks the wealth of each cohort over the last two decades to assess the recession's impact on each group's financial security. Wealth is measured three ways:

- **Net worth** is a comprehensive measure of wealth that includes all financial assets (such as savings and retirement accounts), nonfinancial assets (such as business property), and home equity, less debt.
- **Financial net worth** is a subset of net worth that includes just financial assets: savings accounts, 401(k)s, pensions, and individual retirement accounts.
- **Home equity** is a homeowner's estimate of the difference between what the home could be sold for and what is owed on the mortgage.

Additionally, the report explores the retirement security of each cohort by calculating replacement rates, or the extent to which retirees can use their accumulated wealth and savings to replace preretirement income. Surprisingly, this research reveals that younger cohorts are the ones who face a greater prospect of downward mobility in their golden years. Specifically, the study found:

- **Early boomers (born between 1946 and 1955) were approaching retirement in better financial shape than the cohorts that came before them.** Benefitting from both the dot-com boom and the housing bubble, early boomers had higher overall wealth, financial net worth, and home equity in their 50s and 60s than Depression babies (born between 1926 and 1935) or war babies (born between 1936 and 1945) had at the same ages, putting these boomers in a strong financial position for retirement.
- **The picture of wealth accumulation and savings for Americans born after 1955 was more mixed.** Gen-Xers (born between 1966 and 1975) had higher net worth than late boomers (born between 1956 and 1965) when both were in their 30s and 40s, but neither group had as much wealth as early boomers had at the same age. Similarly, late boomers had more wealth than early boomers when both were in their 40s and 50s, but neither had as much as did war babies.

  The situation for younger cohorts is more tenuous in terms of financial net worth. Neither Gen-Xers nor late boomers were on track to exceed the financial position of the cohorts that immediately preceded them. In their 30s and 40s, Gen-Xers lagged late boomers by about $6,000 by this metric, and in their 40s and 50s, late boomers lagged early boomers by more than $5,000.
- **Both cohorts of baby boomers and Gen-Xers have significantly lower asset-to-debt ratios than do the older groups.** Over the last two decades, Depression and war babies have been shedding debt, while boomers and Gen-Xers have been accumulating it. As of 2010, war babies' asset levels were 27 times higher than their debt. In contrast, late boomers' assets were about four times higher than their debt, and Gen-Xers' assets were about double their debt.
- **All groups experienced wealth losses in the Great Recession, but Gen-Xers took the hardest hit.** Both early and late boomers were negatively affected by the recession at a critical point in their lives, losing 28 and 25 percent of their median net worth, respectively. From 2007 to 2010, however, Gen-Xers lost nearly half (45 percent) of their wealth, an average of about $33,000, reducing their already low levels.

- **Replacement rate analysis shows that the youngest cohorts will not have enough assets for a secure retirement.** Early boomers may be the last cohort on track to retire with enough savings and assets to maintain their financial security through their golden years. Even after the recession, they had acquired enough savings and wealth to replace nearly 70 to 80 percent of their preretirement income. Replacement rates have steadily declined across the cohorts studied, putting the youngest on shaky financial footing. At the median, Gen-Xers will have enough resources to replace only about half of their preretirement income; late boomers will replace about 60 percent.

This report delves into these findings, examining the evidence behind them, particularly the trends, by cohort, of wealth accumulation in periods immediately before, during, and just after the Great Recession. Through that lens, it considers the implications for the later-life economic security of millions of Americans currently in their prime-earning through early-retirement years.